



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

17-23

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

*For the Two Fiscal Years Ended
June 30, 2017*

APRIL 2018

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

April 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission for the two fiscal years ended June 30, 2017. During the course of the audit, we analyzed the financial schedules, reviewed financial records, and tested compliance with state laws and regulations.

The Library's written response to the audit recommendation is included in the audit report at page C-1. We thank the Montana State Library Commission, the State Librarian, and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana State Library Commission	Bruce Newell, Chair	Helena	June 2019
	Anne Kish, Vice Chair	Twin Bridges	June 2020
	Connie Eissinger	Brockway	June 2018
	Aaron LaFromboise	Browning	June 2020
	Ken Wall	Missoula	June 2018
	Elsie Arntzen*, Superintendant of Public Instruction		
	Kenning Arlitsch**		

*Serving as Superintendent of Public Instruction's designee. There is no term limit for the designee.

**Appointed by the Commissioner of Higher Education for the Montana University System.

Administration

Jennie Stapp, State Librarian

Tracy Cook, Director of Statewide Library Resources

Evan Hammer, Digital Information Manager

Kris Schmitz, Central Services Manager

For additional information concerning the Montana State Library
Commission, contact:

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Central Services Manager
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Helena, MT 59620-1800
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

For the Two Fiscal Years Ended June 30, 2017

APRIL 2018

17-23

REPORT SUMMARY

The Montana State Library Commission administers state and federal funding to operate the state library; provides assistance and advice to all tax-supported libraries throughout the state; maintains a library of reading material for Montanans unable to utilize printed materials; and maintains a centralized clearinghouse for Montana's natural resources information and land data, a depository system for state government publications, and digital library services to Montana residents via the internet. Budget reductions for the 2019 biennium, and implemented by the Montana State Library Commission in fiscal year 2018, caused Montana State Library personnel to reduce staff by 12 positions, close the downstairs reading room, and an overall reduction of their print collection.

Context

Montana State Library is the source for State Government Information, Natural Resources Information, and Geographic Information for all Montanans. Montana State library is composed of programs that serve the information needs of all branches of state government, its agencies, local counterparts, and individuals seeking information and materials that are not found in their local libraries.

During the audit of Montana State Library Commission (Library) for fiscal years 2016 and 2017, we analyzed the financial schedules and performed a variety of analytical tests over the financial information to determine whether the financial schedules present fairly the Library's financial positions and results of operations.

We focused our efforts primarily on the Library's activity related to charges for services revenues, federal revenues, and grant expenditures. The Library received \$1,128,419 and \$1,239,379 respectively, in charges for services revenue and \$1,179,679 and \$1,083,384 respectively, in federal revenues in fiscal years 2016 and 2017. Our audit work included, but was not limited to, evaluating the accuracy and completeness of revenue amounts by completing a sample of invoices sent out by the Library, reviewing county collection

reports, and investigating results of analytic procedures.

In fiscal years 2016 and 2017, the Library also distributed \$729,344 and \$773,719, respectively, in grant expenditures to various recipients. Our audit work included, but was not limited to, evaluating the accuracy of grant allocation amounts calculated by the Library, and confirming intended grant recipients received the correct amount.

Additional audit procedures included developing an understanding of and testing various control procedures used by the Library, as well as reviewing and testing compliance with selected state laws and regulations.

Results

We issued an unmodified opinion on the Montana State Library's financial schedules, meaning that financial information can be used for decision-making purposes. We also followed up on the prior audit's recommendation and determined it had been implemented.

This report contains no recommendations.

For a complete copy of the report (17-23) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2017. The objectives of this audit were to:

1. Obtain an understanding of the Library's control systems to the extent necessary to support our audit of the Library's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the Library.
2. Determine whether the Library's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2017, and June 30, 2016.
3. Determine whether the Library complied with selected applicable state laws and regulations.
4. Determine the implementation status of the prior audit recommendation.

We achieved the stated objectives through focused communications with Library staff to develop an understanding of the control procedures in place related to the revenue and expenditure activity during our audit period. Our audit work included, but was not limited to, evaluating the accuracy and completeness of revenue and expenditure amounts by completing testing of selected controls, sample work, review of transactions, and reviewing results of analytical procedures to determine the reasonableness of Library's financial activity. We also determined compliance with various state laws and regulations through interviews with key Library personnel and reviewing supporting documentation. We also followed up on a reported hotline call.

Background

The Library is governed by five Governor appointees, the state Superintendent of Public Instruction or the superintendent's designee, and a librarian appointed by the Commissioner of Higher Education. The Library's focus is to strengthen Montana libraries by directing the development and improvement of library services, to provide library services to Montanans who cannot read traditional print materials, and to manage and provide access to state government, geographic, and natural resources information for all Montana citizens. The Library consists of three divisions with an authorized total of 33.08 full-time equivalent employees (FTE) at June 30, 2017. Because of the required budget reductions for the 2019 biennium that are described in further detail below, State Library was required to reduce staff by a total of 12 positions by means of not filling vacant positions and reduction in force; authorized FTE were not reduced because of the required budget reductions.

Montana Digital Library Division (11.81 FTE): Within the division, Geographic Information provides comprehensive statewide geospatial information and consulting services, including the Natural Resource Information System (NRIS) which provides for the acquisition, storage, and dissemination of information concerning Montana's natural resources. The Natural Heritage Program provides information on the status and distribution of the state's native plants and animals and manages the Montana Wetland and Riparian Mapping Center, the Montana Land Management Mapping Program, and the Montana Field Guide. The Water Information System is a program of NRIS, and provides access to information relating to Montana's water resources, and the State Publication Center maintains a comprehensive collection of state agency publications. Reductions required by Chapter 366, Laws of 2017 (House Bill 2) and Chapter 429, Laws of 2017 (Senate Bill 261) for the 2019 biennium, and implemented by the Montana State Library Commission in fiscal year 2018, caused the closing of the downstairs reading room. Additionally, the Library reduced the number of Digital Library staff by 6 through a combination of reduction in force and not filling a vacant position.

Statewide Library Resources Division (12.62 FTE): Provides the tools, training, and expertise to Montana libraries through various programs and resources including, Montana Shared Catalog (MSC), Statewide Library Consultants, Statewide Training and Certification, Ready 2 Read, Montana Talking Book Library, Montana Memory Project, and Library2Go. The MSC has members located in 99 communities across Montana and provides access to more than 5 million items to Montanans. The Library2Go is a statewide downloadable e-content service providing access to eBooks and downloadable audiobooks to patrons of the Montana Library2Go members. The Montana Talking Book Library provides free audio books and magazines to eligible Montana residents that are unable to use traditional print materials. Reductions required by House Bill 2 and Senate Bill 261 for the 2019 biennium caused the State Library to reduce the number of Talking Book Library staff by two through a reduction in force. Additionally, the State Library merged the Talking Book Library into the Digital Library in order to share staff expertise.

Central Services Division (8.65 FTE): Provides support to all of the Library's programs by performing accounting, fiscal management, payroll, information technology support, and other administrative functions. Reductions required by House Bill 2 and Senate Bill 261 for the 2019 biennium caused the State Library to reduce the number of Central Services staff by 4 through a combination of reduction in force and not filling a vacant position.

All of the financial activity from the three divisions previously discussed is reflected in a singular Statewide Library Resources Program on the Library's Schedule of Expenditures and Transfers-Out beginning on page A-7.

Prior Audit Recommendations

The prior audit report contained one recommendation related to internal controls over revenue amounts received from the Department of Revenue. Montana State Library implemented the recommendation by establishing a reconciliation process to compare amounts received from the Department of Revenue through the county collection reports to what is recorded on SABHRS to ensure they are receiving the correct amount.

Independent Auditor's Report and Commission Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library Commission for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Montana State Library Commission's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Montana State Library Commission's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity of the Montana State Library Commission for each of the fiscal years ended June 30, 2017, and 2016, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2018, on our consideration of the Montana State Library Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Library Commission's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena MT

March 8, 2018

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2016	\$ (296,542)	\$ 1,032,707	\$ 0	\$ (57,484)
ADDITIONS				
Budgeted Revenues & Transfers-In		1,200,076	1,086,128	356,846
Nonbudgeted Revenues & Transfers-In		15,191		1,749
Prior Year Revenues & Transfers-In Adjustments			847	
Direct Entries to Fund Equity	3,425,599	268,456		
Total Additions	<u>3,425,599</u>	<u>1,483,722</u>	<u>1,086,975</u>	<u>358,595</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,409,936	1,370,874	1,086,975	360,603
Nonbudgeted Expenditures & Transfers-Out	(1,686)	92,889		7,533
Prior Year Expenditures & Transfers-Out Adjustments	324	(24,874)		
Total Reductions	<u>3,408,574</u>	<u>1,438,889</u>	<u>1,086,975</u>	<u>368,136</u>
FUND EQUITY: June 30, 2017	\$ (279,516)	\$ 1,077,540	\$ 0	\$ (67,024)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2015	\$ (206,716)	\$ 910,887	\$ 0	\$ (21,013)
ADDITIONS				
Budgeted Revenues & Transfers-In		1,123,638	1,187,109	321,516
Nonbudgeted Revenues & Transfers-In		7,652		2,058
Prior Year Revenues & Transfers-In Adjustments			487	
Direct Entries to Fund Equity	3,313,743	463,226		
Total Additions	3,313,743	1,594,516	1,187,596	323,574
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,405,237	1,463,765	1,187,596	354,342
Nonbudgeted Expenditures & Transfers-Out	(1,968)	8,972		5,703
Prior Year Expenditures & Transfers-Out Adjustments	299	(40)		
Total Reductions	3,403,569	1,472,696	1,187,596	360,045
FUND EQUITY: June 30, 2016	\$ (296,542)	\$ 1,032,707	\$ 0	\$ (57,484)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes		\$ 847		\$ 847
Charges for Services	\$ 882,532		\$ 356,846	1,239,379
Investment Earnings	9,180			9,180
Grants, Contracts, and Donations	209,018		1,749	210,767
Transfers-in	114,537	2,744		117,281
Federal		1,083,384		1,083,384
Total Revenues & Transfers-In	1,215,266	1,086,975	358,595	2,660,837
Less: Nonbudgeted Revenues & Transfers-In	15,191		1,749	16,940
Prior Year Revenues & Transfers-In Adjustments		847		847
Actual Budgeted Revenues & Transfers-In	1,200,076	1,086,128	356,846	2,643,050
Estimated Revenues & Transfers-In	1,196,635	1,087,588	356,849	2,641,072
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,441	\$ (1,461)	\$ (3)	\$ 1,978
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ 3,532		\$ (3)	\$ 3,530
Investment Earnings	(56)			(56)
Grants, Contracts, and Donations	(36)			(36)
Transfers-in	(0)	(99)		(100)
Federal		(1,361)		(1,361)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,441	\$ (1,461)	\$ (3)	\$ 1,978

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes		\$ 487		\$ 487
Charges for Services	\$ 806,903		\$ 321,516	\$ 1,128,419
Investment Earnings	4,290			4,290
Grants, Contracts, and Donations	224,042	7,429	2,058	226,100
Transfers-in	96,055	1,179,679		1,034,844
Federal				1,179,679
Total Revenues & Transfers-In	1,131,290	1,187,596	323,574	2,642,460
Less: Nonbudgeted Revenues & Transfers-In	7,652		2,058	9,710
Prior Year Revenues & Transfers-In Adjustments		487		487
Actual Budgeted Revenues & Transfers-In	1,123,638	1,187,109	321,516	2,632,263
Estimated Revenues & Transfers-In	1,123,764	1,187,258	321,517	2,632,539
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (126)	\$ (149)	\$ (1)	\$ (276)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Charges for Services	\$ (97)		\$ (1)	\$ (98)
Investment Earnings	(25)			(25)
Transfers-in	(4)	(3)		(7)
Federal		(146)		(146)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (126)	\$ (149)	\$ (1)	\$ (276)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Statewide Library Resources	Total
Personal Services		
Salaries	\$ 2,301,919	\$ 2,301,919
Other Compensation	2,200	2,200
Employee Benefits	925,014	925,014
Personal Services-Other	1,700	1,700
Total	<u>3,230,833</u>	<u>3,230,833</u>
Operating Expenses		
Other Services	1,244,989	1,244,989
Supplies & Materials	148,947	148,947
Communications	75,405	75,405
Travel	98,763	98,763
Rent	371,553	371,553
Repair & Maintenance	100,862	100,862
Other Expenses	160,024	160,024
Total	<u>2,200,542</u>	<u>2,200,542</u>
Equipment & Intangible Assets		
Equipment	1,218	1,218
Total	<u>1,218</u>	<u>1,218</u>
Capital Outlay		
Buildings	80,079	80,079
Total	<u>80,079</u>	<u>80,079</u>
Grants		
From State Sources	773,719	773,719
From Federal Sources	300	300
Total	<u>774,019</u>	<u>774,019</u>
Post Employment Benefits		
Other Post Employment Benefits	7,267	7,267
Employer Pension Expense	8,618	8,618
Total	<u>15,885</u>	<u>15,885</u>
Total Expenditures & Transfers-Out	<u>\$ 6,302,575</u>	<u>\$ 6,302,575</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 3,408,574	\$ 3,408,574
State Special Revenue Fund	1,438,889	1,438,889
Federal Special Revenue Fund	1,086,975	1,086,975
Enterprise Fund	368,136	368,136
Total Expenditures & Transfers-Out	6,302,575	6,302,575
Less: Nonbudgeted Expenditures & Transfers-Out	98,736	98,736
Prior Year Expenditures & Transfers-Out Adjustments	(24,550)	(24,550)
Actual Budgeted Expenditures & Transfers-Out	6,228,389	6,228,389
Budget Authority	6,925,143	6,925,143
Unspent Budget Authority	<u>\$ 696,754</u>	<u>\$ 696,754</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 97,002	\$ 97,002
State Special Revenue Fund	432,947	432,947
Federal Special Revenue Fund	162,939	162,939
Enterprise Fund	3,867	3,867
Unspent Budget Authority	<u>\$ 696,754</u>	<u>\$ 696,754</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Statewide Library Resources	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,242,628	\$ 2,242,628
Other Compensation	2,250	2,250
Employee Benefits	800,300	800,300
Personal Services-Other	665	665
Total	<u>3,045,843</u>	<u>3,045,843</u>
Operating Expenses		
Other Services	1,389,929	1,389,929
Supplies & Materials	144,406	144,406
Communications	85,727	85,727
Travel	122,323	122,323
Rent	372,162	372,162
Repair & Maintenance	82,663	82,663
Other Expenses	435,748	435,748
Total	<u>2,632,959</u>	<u>2,632,959</u>
Equipment & Intangible Assets		
Equipment	2,307	2,307
Total	<u>2,307</u>	<u>2,307</u>
Grants		
From State Sources	729,344	729,344
Total	<u>729,344</u>	<u>729,344</u>
Post Employment Benefits		
Other Post Employment Benefits	6,748	6,748
Employer Pension Expense	6,705	6,705
Total	<u>13,453</u>	<u>13,453</u>
Total Expenditures & Transfers-Out	<u>\$ 6,423,906</u>	<u>\$ 6,423,906</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 3,403,569	\$ 3,403,569
State Special Revenue Fund	1,472,696	1,472,696
Federal Special Revenue Fund	1,187,596	1,187,596
Enterprise Fund	360,045	360,045
Total Expenditures & Transfers-Out	6,423,906	6,423,906
Less: Nonbudgeted Expenditures & Transfers-Out	12,707	12,707
Prior Year Expenditures & Transfers-Out Adjustments	259	259
Actual Budgeted Expenditures & Transfers-Out	6,410,940	6,410,940
Budget Authority	7,407,916	7,407,916
Unspent Budget Authority	<u>\$ 996,976</u>	<u>\$ 996,976</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 54,565	\$ 54,565
State Special Revenue Fund	337,032	337,032
Federal Special Revenue Fund	604,157	604,157
Enterprise Fund	1,222	1,222
Unspent Budget Authority	<u>\$ 996,976</u>	<u>\$ 996,976</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana State Library Commission

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2017

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana State Library Commission (Library) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue). In applying the modified accrual basis, the Library records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Library to record the cost of employees' annual and sick leave when used or paid.

The Library uses accrual basis accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the Library records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the library receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Library uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are

legally restricted to expenditures for specific state program purposes. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Natural Resource Information System contracts with state and private entities, Montana Land Information, and other private donations.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Library Federal Special Revenue Funds include the Library Services and Technology Act grants and Natural Resource Information System contracts with federal entities.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the Library finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Library Enterprise Funds include Montana Shared Catalog.

2. General Fund and Enterprise Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Library has authority to pay obligations from the statewide General Fund within its appropriation limits. The Library expends cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2016 and June 30, 2017.

Negative fund equity in the Enterprise funds comes from applying GASB Statement #68, covering pension plan accounting, and GASB Statement #45, guidance for other post employment benefit plan accounting. The result is a net decrease to fund equity in the Enterprise fund that causes a negative fund equity balance for the fiscal year-ended June 30, 2016, of \$57,484 and for the fiscal year-ended June 30, 2017, of \$67,024. It does not indicate overspent budget authority.

3. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for 2016 presents unspent budget authority of \$337,032 in the State Special Revenue Fund and \$604,157 in the Federal Special Revenue Fund. State Special Revenue unspent authority is related to lower than estimated Coal Severance Tax Revenue, and the Montana Land Information

Account which is based on an estimate in HB 2, and is driven by the Montana Land Plan yearly approval and revenue forecast and NRIS contract related services. In the Federal Special Revenue Fund, NRIS federal contract related services and the federal authority for the Library Services and Technology Act funds are based on an estimate in HB 2 and funded as continuing appropriations. Expenditures are driven by the award and projects each year and the unspent authority carries into FY 17.

The Schedule of Total Expenditures & Transfers-Out for 2017 presents unspent budget authority of \$432,947 in the State Special Revenue Fund and \$162,939 in the Federal Special Revenue Fund. State Special Revenue unspent authority is related to lower than estimated Coal Severance Tax Revenue, and the Montana Land Information Account which is based on an estimate in HB 2, and is driven by the Montana Land Plan yearly approval and revenue forecast and NRIS contract related services. In the Federal Special Revenue Fund, NRIS federal contract related services and the federal authority for the Library Services and Technology Act funds are based on an estimate in HB 2 and expenditures are driven by the award and projects each year.

4. Subsequent Events

Subsequent to the June 30, 2017, fiscal year-end, the Library received two checks from an estate totaling \$1,943,374. This was deposited into the Library trust account per (MCA 22-1-225, 22-1-226, 22-1-103). No expenditures have yet to be extinguished with these funds and authorization to use them will follow the instructions from the estate's attorney and the Montana State Library Commission Policy – Montana State Library Trust.

Senate Bill 261 (SB 261), passed during the 2017 Legislative Session, contained requirements for the Department of Administration to determine, by August 15, 2017, the unaudited revenue for the General Fund and compare this to estimates approved by the Legislature. The bill cut spending authority for fiscal year 2018 and/or 2019, should the unaudited revenue balance fall below \$2.216 billion at five different intervals. The Montana State Library was affected by Level 3 budget reduction in appropriation for a reduction of \$666,527 in fiscal year 2018 and \$669,513 in fiscal year 2019. This along with the reduction in HB 2 the State Library was at total reductions of \$990,691 per year. The State Library was forced to reduce staff by 12 positions, merge the Talking Book Library into the Digital Library, close the reading room and reduce funding for the Natural Heritage Program contract by 25%.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library Commission for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules, and have issued our report thereon dated March 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Montana State Library Commission's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of Montana State Library Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Montana State Library Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana State Library Commission's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Montana State Library Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montana State Library Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 8, 2018

MONTANA STATE LIBRARY
COMMISSION

COMMISSION RESPONSE



PO Box 201800 • Helena, Montana 59620-1800 • 406-444-3115
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LEGISLATIVE AUDIT DIV.

April 9, 2018

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

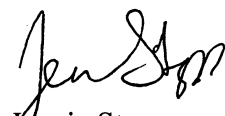
Dear Mr. Maciver:

We would like to thank the Legislative Audit staff for their work to complete the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 2017. We appreciate their professionalism and the rapport they established with our staff which made the process both thorough and efficient.

We are pleased your report contains no audit recommendations. I assure you that we will strive to continue to maintain and improve the exceptional fiscal management of the State Library. We always value input from your staff as we do so.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,


Jennie Stapp
State Librarian